

**National Defense Industrial Association (NDIA)
Defense Acquisition Regulations System
DFARS Case 2012-D042**

- Auditing of government contractors is essential to protect the taxpayer's interests.
- NDIA strongly supports reasonable internal and external audit programs.
- DoD is struggling to make overhead reductions (20%) and increasing the audit bureaucracy, whether public or private will increase overhead costs.
- The DoD mission is to generate, employ, and sustain the warfighter needs to be kept foremost in mind as rules are written to amend our current audit processes.
- No enemy of the United States will ever be deterred or defeated by the excellence of our audits, therefore we cannot let our bureaucratic processes become our own worst enemy. Our audits must support DoD and its mission, not the other way around.
- By failing to place the responsibility of business system audits either exclusively on contractors or DCAA, this proposed rule takes a hybrid approach where contractors must contract with private CPAs to perform business system audits, but DCAA still retains basic approval authorities over the work of fully qualified private auditors.
- This proposed rule will increase costs without improving efficiency, and therefore should be substantially revised.

The final rule should reflect one of two distinct approaches:

1. DCAA will augment its staff by directly contracting with private CPAs,
2. or that contractors and private CPAs will be responsible for business systems audits.

Not a hybrid approach.

The basis of the rule as it was drafted in response to **GAO Report 12-83** states,

“...because we found consistent delays in the audit time frames for the business systems that require support from DCAA, higher-level attention is needed to mitigate the risk to the government of outdated business system audits. DCAA, because of workforce challenges of its own, is not at present able to fulfill its business system audit responsibilities and is not likely to be in a position to do so in the near term given its other priorities. Thus, the department needs to consider alternative methods to accomplish these critical audits in a timelier manner.”

And, “We recommend that the Secretary of Defense work with DCMA and DCAA to identify and execute options, such as hiring external auditors, to assist in conducting audits of contractor business systems as an interim step until DCAA can build its workforce enough to fulfill this responsibility.”

- GAO recommended that DoD contract directly with private CPAs for the purposes of temporarily augmenting DCAA's audit capacity.
- This proposed rule is far different and instead creates an additional layer of audit overhead and overhead cost without either increasing DCAA's staff capacity or reducing its workload.
- NDIA sees several advantages to strictly following GAO's recommendation to temporarily augment DCAA's staff with private CPAs to perform business systems audits on its behalf.
- Likewise, there are advantages to a rule that removes DCAA from the business system auditing process by allowing government contractors to have their business systems audited by private CPAs.
- The proposed rule does not take either approach. Instead, it creates a new and burdensome intermediate audit process involving private CPAs that DCAA continues to oversee.

INCREASED COSTS

- **Private and qualified CPA firms may charge higher rates than equivalent DCAA labor rates for the expected services.**
- **Over the past 25 years, the projected triennial DCAA audits of contractor business systems have actually occurred much less frequently than every three years, so this new rule will increase the number of audits performed.**
- **Increased frequency of complete internal reviews and self-assessments** because the proposed rule requires a greater frequency of periodic internal reviews or self-assessments of business systems.
- **Any significant DCAA review of triennial external CPA audits** will mean increased costs with no return of timeliness on the investment.

- The hybrid approach does not rely on the processes of qualified private CPAs, as it should.
- The proposed rule should allow the CPA to conduct its audit process in the normal course of an attestation engagement subject to review after the work is complete and the report is issued.
- The proposed rule does not rely on existing CPA professional standards.
- The proposed rule does not rely on existing tools for CPA staff augmentation available on the GSA schedule and in use by civilian agencies.
- The proposed rule vastly underestimates its annual reporting burden.
- The proposed rule establishes a strict timeline for contractor and CPA reporting without similarly establishing strict timelines for DCAA and DCMA response.
- The proposed rule grants unheralded access to internal and external audit records and work papers.
- The proposed rule should be issued after DCAA establishes clear audit guidance, in collaboration with industry, and clarifies key definitions in its rule and guidance.

NDIA recommends taking one of two other approaches which would secure the taxpayer's interests without significant new costs, and perhaps even reduced costs.

1. DCAA will augment its staff by directly contracting with private CPAs,
 2. or that contractors and private CPAs will be responsible for business systems audits.
- **NDIA recommends DoD to convene a government-industry working group** to decide upon the basic principles that will guide the proposed rule, and then re-draft the rule in hope that DoD will adopt a newly collaborative approach more likely to produce a successful, cost-efficient rule when the drafting and review processes are done.
 - The alarming workforce trend of DoD is a reduction in “manpower” in order to increase “oversight.” This proposed rule, by adding an additional layer of CPA auditing without removing an extraneous layer of DCAA review, moves far beyond that point.
 - NDIA offers our help and effort to realize these changes in the final rule.

QUESTIONS?